CONNECTIONS

2008 ANNUAL REPORT

SaskWater

The Quality Advantage

About SaskWater

SaskWater is Saskatchewan's commercial Crown water utility, providing cost-effective solutions to communities, First Nations and industry through reliable and professional water and wastewater services.

SaskWater provides professional water and wastewater services to 55 communities, 57 rural pipeline groups, 43 industrial, 201 single users and 13 other customers.

The corporation owns seven water treatment plants, three wastewater facilities, 35 pump stations and over 800 km of pipeline. SaskWater also maintains customer-owned systems and provides operator training to 39 Saskatchewan First Nations communities.

SaskWater has defined four measurable strategic objectives to guide the corporation: Succeeding Financially; Growing the Business; Achieving Business Excellence; and Valuing Employees.

As Saskatchewan's commerical Crown water utility, SaskWater provides cost-effective solutions to communities, First Nations and industry through reliable and professional water and wastewater services.

Corporate Profile

SaskWater is committed to providing the highest level of service to its customers. That promise is reflected in the corporation's Vision, Mission and Values.

Vision:
To be Saskatchewan's water and wastewater utility of choice.

Mission:
To provide reliable and professional water and wastewater services for Saskatchewan.

Values:
Integrity, Professionalism, Sense of Community and Innovation.

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Systems Map

The corporation owns seven water treatment plants, three wastewater facilities, 35 pump stations and over 800 km of pipeline. SaskWater also maintains customer-owned systems and provides operator training to 39 Saskatchewan First Nations communities.

Current Service in Saskatchewan

SaskWater currently owns and/or operates wastewater, potable and non-potable waterworks in the following locations/regions:

1 Pierceland
2 Paynton
3 Meota Area
4 Melfort Area
5 Wakaw-Humboldt Area
6 Saskatoon Area
7 Hanley-Watrous-Lanigan Area
8 Elbow
9 Buffalo Pound Area
10 Gravelbourg
11 White City/Emerald Park
12 Edenwold
13 Halbrite
14 Nipawin
15 Fort Qu'Appelle

Minister's Message

It continues to be an exciting, rewarding time for CIC and its 12 subsidiary Crown corporations. Three Crowns were recognized for excellence in diversity by Macleans magazine. In addition, six Crowns were among Saskatchewan's Top 15 Employers for 2009, as selected by the editors of Canada's Top 100 Employers. I take pride in the fact that our Crowns' workforces reflect our communities and are recognized as exceptional places to work.

As Minister of Crown Corporations, I am pleased that SaskWater has "connected" to growth in Saskatchewan's economy and Saskatchewan communities by providing quality service to 55 communities through more than 800 km of pipeline. The municipal network for Saskatchewan communities expanded in 2008 with the signing of agreements with both Aberdeen and the Highway 41 Water Utility. These customers will receive service from SaskWater's Saskatoon Northeast Potable Water Supply System. As well, SaskWater celebrated the addition of two new certified operations and maintenance customers.

In 2008, SaskWater delivered a record 14.65 billion litres of non-potable water. Growth with industrial customers such as potash, ethanol, canola processing and fertilizer production saw the volume of non-potable water supplied by SaskWater increase by 6.78%.

My priority for the future remains the same: to ensure that Saskatchewan's Crown corporations remain publicly owned and provide high quality services at a low cost. This is a promise our Government made to the people of Saskatchewan, and it is a promise we will keep. A current theme in the Crown sector that I expect to continue is growth. By that I mean the changes required within the Crowns to sustain and support Saskatchewan's economic momentum. These changes range from investing in new infrastructure to expanding various services in line with the demand from both our residential and business communities.

Our new Saskatchewan First investment policy for the Crowns also reflects this theme. The policy recognizes that our growing economy presents increasing opportunity for investing in our own province. We will continue to move in that direction.

The 2009-2013 SaskWater strategic plan, anchored by a new vision, mission and values, has been approved and provides the framework for SaskWater's 2009 budget and performance management plan. SaskWater will continue to provide reliable and professional water and wastewater services with integrity, professionalism, a sense of community and innovation. Many new projects look promising for 2009 as SaskWater works toward expanding connections as a water and wastewater services provider to Saskatchewan.

As you will see in this report, our Crown sector is financially healthy and ready to meet the challenges and opportunities of the coming years.

I am pleased to present SaskWater's 2008 Annual Report.

Sincerely,

Ken Cheveldayoff
Minister of Crown Corporations

Letter of Transmittal

Moose Jaw, March 2009

To His Honour
Dr. Gordon L. Barnhart
Lieutenant Governor of
Saskatchewan
Province of Saskatchewan

Dear Sir:

It is my honour to submit herewith the annual report of SaskWater for the year ending December 31, 2008.

The annual report includes the financial statements, duly certified by auditors for the Corporation, in the form approved by the Treasury Board and in accordance with the Saskatchewan Water Corporation Act.

I have the honour to be your obedient servant.

Sincerely,

Ken Cheveldayoff
Minister of Crown Corporations

Letter to Stakeholders

As Saskatchewan's commercial Crown water utility, SaskWater takes pride in the critical role we play to provide professional and reliable water and wastewater services to our customers and help them realize the true value of water.

Access to quality water services helps to build a prosperous future for our province, supports regional economies and provides opportunities for growth. The value of water is reflected in the well-being and health of residents, the retention and growth of existing population and the ability to attract new business and industry.

At SaskWater, we understand the true value of water and that is reflected in our day-to-day business as we expand our services.

In 2008, with the help of our industrial customers, SaskWater was able to deliver a record 14.65 billion litres of non-potable water. The growth in sectors such as potash, ethanol, canola processing and fertilizer production saw the volume of non-potable water supplied by SaskWater increase by 6.78% in 2008.

SaskWater also connects to Saskatchewan municipalities by providing service to 55 communities through more than 800 km of pipeline. Also connected to SaskWater's infrastructure are 57 rural pipeline groups whose pipeline networks reach thousands of people and connect to additional communities across Saskatchewan.

In 2008, SaskWater celebrated the addition of new potable water and certified operations and maintenance customers. Water supply agreements were signed with two new customers, two new certified operations and maintenance (COM) contracts were signed and two existing COM contracts were expanded.

SaskWater is proud of its connection to Saskatchewan First Nations. In 2008 on behalf of Indian and Northern Affairs Canada, SaskWater trained 111 water and wastewater operators at 39 First Nations communities and prepared to add remote monitoring services to three of those communities. SaskWater's Northern Engineering unit plays a key role in northern Saskatchewan through planning and managing the design and construction of water and wastewater infrastructure on behalf of the Ministry of Municipal Affairs and the communities involved. In 2008 these communities included, among others, the Town of Lac La Ronge, the Northern Village of Air Ronge, the Lac La Ronge Indian Band, the Northern Village of Sandy Bay and the Peter Ballantyne Cree Nation. With the help of our Aboriginal Advisor to the President, SaskWater continues to build positive relationships with First Nations and create opportunities to expand our services.

SaskWater takes very seriously its reputation for providing reliable, high quality service on a consistent and predictable basis and that is reflected in our balanced scorecard findings. SaskWater's number of unplanned service interruptions in 2008 was 30, well below the target of 45. The average length of service interruptions was 5.2 hours, again well below the targeted 8 hours. There is still room to improve; however, these numbers verify SaskWater's commitment to work proactively to ensure we maintain our positive reputation with our customers into the future.

SaskWater's commitment to customer service includes a responsibility to provide quality water treated in accordance with strict standards. Our annual Water Quality Report, published with the Annual Report, holds us accountable to those standards and communicates to customers where we've met and exceeded those standards.

At SaskWater we value our employees' expertise and ideas. In 2008, SaskWater committed 3% of base salary to employee training in the areas of ongoing education and professional development. Over 90% of employees took advantage of this opportunity and received some form of training. Our Human

Resources Advisory Committee, comprised of 11 SaskWater employees, provides input on the Human Resources strategy, the employee survey tool and HR policies. In 2008, the committee worked on an employee recognition program to make employee recognition an integral part of SaskWater's business and people strategy. The program will create, foster and encourage an organizational culture which recognizes employee and team initiative, creativity, innovation and accomplishments while contributing to SaskWater's strategic plan.

As SaskWater moves forward, our progress is backed by a new strategic plan. The 2009-2013 strategic plan, which is anchored by a new vision, mission and values, was developed with input from employees, approved by our Board in the spring of 2008 and provides the framework for SaskWater's 2009 budget and performance management plan. SaskWater will continue to strive to be Saskatchewan's water and wastewater utility of choice by providing reliable and professional water and wastewater services with integrity, professionalism, a sense of community and innovation.

We look forward to expanding our connections as a water and wastewater services provider to Saskatchewan municipalities, rural pipeline groups and First Nations communities. Thank you to our employees for their dedicated work and to our customers for their support as SaskWater strengthens its role in Saskatchewan's prosperity as the province's commercial Crown water utility.

Stuart Kramer
President

Glen Rittinger
Chair of the Board

Lines of Business

As Saskatchewan's commercial Crown water utility, SaskWater provides potable and non-potable water delivery, wastewater management and certified operations and maintenance services to Saskatchewan municipalities, First Nations, rural pipeline groups and industry.

SaskWater's core lines of business include:

- potable (safe for human consumption) and non-potable water supply;
- wastewater treatment and management;
- certified operations and maintenance of customer-owned systems; and
- project management and operator training services.

SaskWater is a value-added service provider. The corporation owns and operates a number of regional water supply systems to bring quality drinking water from central treatment plants to serve a number of communities. For some rural communities, this type of system is the most cost-effective and sustainable.

Depending on geographic location and feasibility, SaskWater also provides certified operations and maintenance services for customer-owned systems.

Contracted utility services from SaskWater provide communities with access to:

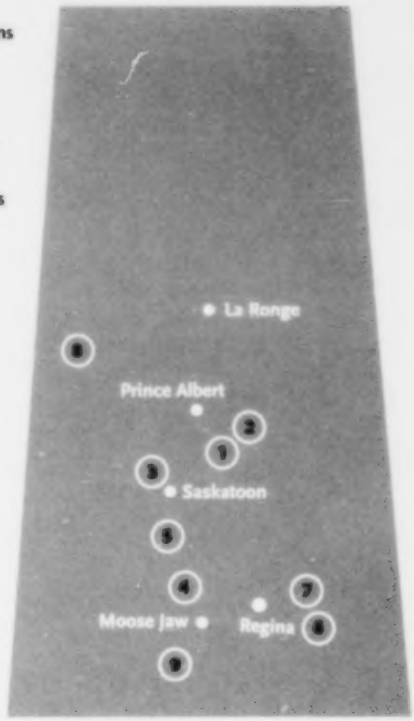
- quality water products;
- reliable supply and service;
- technical expertise;
- local employment opportunities for certified operators;
- capital improvement planning;
- reduced liability and risk; and
- the capability to meet regulatory requirements.

Regional Potable Water Supply Systems

1. Wakaw-Humboldt
2. Codette Lake
3. Saskatoon Area
4. Buffalo Pound Area

Stand Alone Systems

5. Elbow
6. White City
7. Edenwold
8. Pierceland
9. Gravelbourg



Non-Potable Transmission System

1. Saskatoon Area
2. Saskatoon Southeast
3. Buffalo Pound Area
4. Regina East

Potable water supply

SaskWater's potable water supply business refers to the delivery of water that is suitable for human consumption in accordance with applicable regulations. Municipalities represent the largest consumers of potable water. SaskWater also delivers potable water to businesses for industrial and process uses and for on-site human consumptive use.

The majority of SaskWater's municipal customers own and manage their local distribution systems and the relationship with their residents. SaskWater provides wholesale water delivery service to the community, who then delivers service to its residents.

Stand-alone systems

SaskWater's mandate enables the corporation to purchase and operate municipal waterworks or to construct new water supply and treatment systems. SaskWater currently owns and operates stand-alone systems in Elbow, White City, Pierceland, Edenwold and Gravelbourg.

Regional systems

SaskWater owns and operates the Wakaw-Humboldt and Codette Lake regional potable water systems. These systems consist of a single treatment plant that produces and distributes potable water to surrounding communities through a pipeline network. Water treatment plants for these two regional systems are located in Wakaw and Melfort. Together these systems supply potable water to 17 communities and several rural pipeline groups.

SaskWater also owns and operates two regional potable water systems where the water is purchased from other suppliers. SaskWater purchases potable water from the City of Saskatoon and delivers it to surrounding communities, industrial companies and pipeline groups through an extensive pipeline network. SaskWater also purchases potable water from the Buffalo Pound Water Administration Board and the City of Regina, sourced from the Buffalo Pound Treatment Plant, and delivers it to area municipalities and industries.

Non-Potable water supply

SaskWater's non-potable water supply business refers to the delivery of water that is considered not suitable for human consumption in accordance with applicable regulations.

The majority of SaskWater's non-potable water supply is delivered in large volumes to industrial customers for processing and manufacturing operations, including potash mines and fertilizer manufacturers.

Municipal customers also purchase non-potable water from SaskWater. These customers own water treatment facilities and perform their own treatment processes prior to residential delivery.

SaskWater currently owns and operates non-potable water systems in the areas surrounding Saskatoon, Buffalo Pound Lake and east of Regina.

Potable water supply

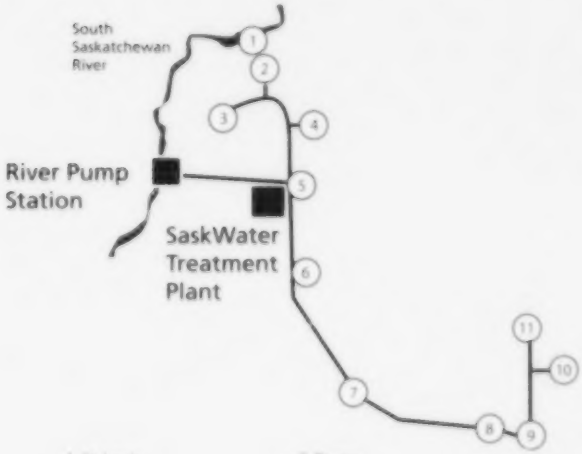
Saskatoon Area:
Potable Water Supply System

1. Hague
2. Osler
3. Dalmeny
4. Warman
5. Martensville
6. ERCO Worldwide
7. Prairie Pride Chick Sales Ltd.
8. Perkins Ag Marketing Inc.
9. Marsulex Inc.
10. Grasswood
11. Casa Rio/Wood Meadow
12. Sunset Estates
13. Clavet
14. Bradwell
15. Allan
16. Elstow

Melfort Area:
Potable Water Supply System

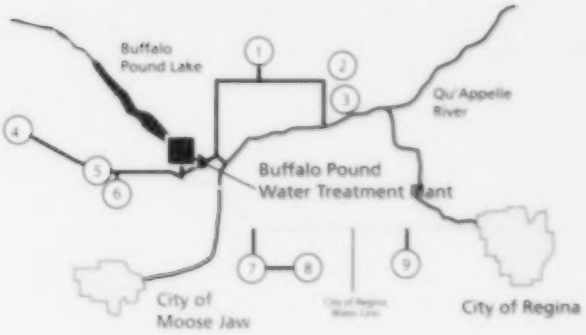
1. Weldon
2. Kinistino
3. Beatty
4. Melfort
5. Star City
6. Star City Colony

Wakaw-Humboldt Area:
Potable Water Supply System



1. St. Louis
2. Hoey
3. St. Isidore-de-Bellevue
4. Domremy
5. Wakaw
6. Cudworth
7. Bruno
8. Humboldt
9. Muenster
10. Annaheim
11. Lake Lenore

Buffalo Pound Area:
Potable Water Supply System



1. Bethune
2. Arm River Colony
3. Disley
4. Marquis
5. Tuxford
6. Koch Fertilizer
7. Yara Belle Plaine Inc.
8. Canadian Salt
9. Grand Coulee

Wastewater treatment and management

An emerging issue in water management is the need for environmentally sustainable wastewater treatment systems. SaskWater currently owns and operates wastewater facilities in Nipawin, Pierceland and Fort QuiAppelle.

Certified operations and maintenance (COM)

SaskWater contracts with communities and rural pipeline groups to provide certified operations and maintenance of their water and wastewater systems, including:

- water supply works;
- treatment plants;
- storage facilities;
- distribution systems; and
- wastewater collection and disposal.

The above services are supervised or performed by certified operators.

We also provide regulatory reporting and consultation, emergency planning and customer support services.

SaskWater is able to offer the services of its qualified certified operators to communities and rural pipeline groups located near our existing operating centres.

Remote monitoring

Partnering with TransGas, SaskWater uses a Supervisory Control and Data Acquisition (SCADA) system to remotely monitor 34 of SaskWater's owned and contracted systems across the province 24 hours a day 365 days a year.

SCADA helps SaskWater improve services and reduce costs. Operating water and wastewater systems for communities in a province the size of Saskatchewan can be challenging. SaskWater serves approximately 50,000 people in 55 communities in a province that covers 140,000 square kilometres.

By remotely monitoring SaskWater facilities, cost for travel to sites is reduced and field staff can focus more time on preventative maintenance and facility improvements, providing a higher level of service to our customers.

Northern activities

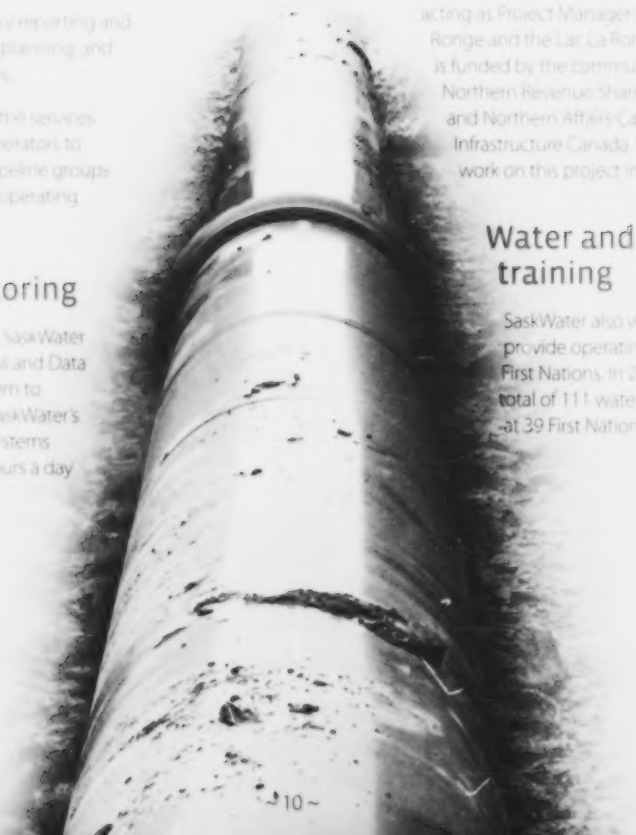
SaskWater plays a role in northern Saskatchewan, planning and managing the design and construction of water and wastewater infrastructure on behalf of the Ministry of Municipal Affairs.

SaskWater provides ongoing technical advice to northern communities for the expansion and maintenance of water and wastewater infrastructure, including responding to community emergencies related to that infrastructure.

Throughout 2008, SaskWater worked on the Lac La Ronge Regional Water Corporation – Water Supply System, acting as Project Manager on behalf of La Ronge, Air Ronge and the Lac La Ronge Indian Band. The project is funded by the communities involved, the Northern Revenue Sharing Trust Account, Indian and Northern Affairs Canada (INAC) and Infrastructure Canada. SaskWater will continue its work on this project into 2009.

Water and wastewater training

SaskWater also works on behalf of INAC to provide operating training to Saskatchewan First Nations. In 2008, SaskWater trained a total of 111 water and wastewater operators at 39 First Nations.



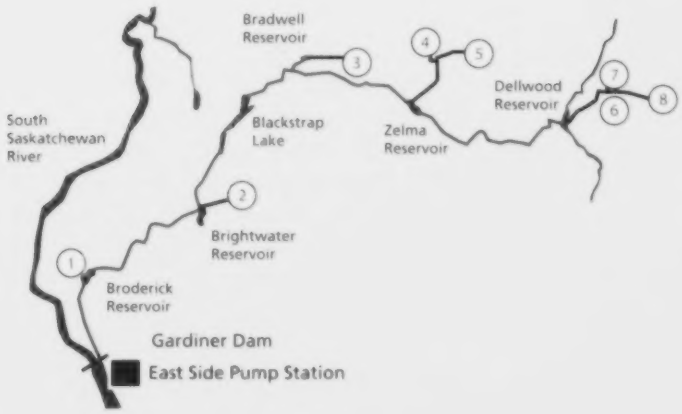
Non-Potable water supply

Saskatoon Area:
Non-Potable Water Supply System

1. Agrium Potash
2. Variscoy
3. PCS Cory and Cory Cogen
4. Cedar Villa
5. Riverside Estates
6. Golf Courses (WGCC/SGCC/Greencryte)
7. Cargill

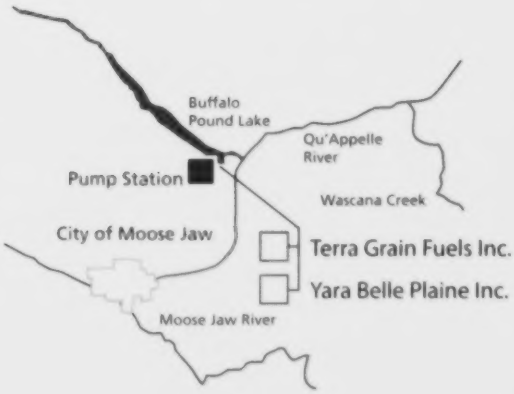
Regina East:
Non-Potable Water Supply System

Saskatoon Southeast:
Non-Potable Water Supply System



1. Broderick
2. Hanley
3. PCS Allan
4. Mosaic Potash Colonsay ULC
5. Viscount
6. PCS Lanigan
7. Guernsey
8. Lanigan

Buffalo Pound Area:
Non-Potable Water Supply System



Typical surface water treatment process

A surface water intake pipe brings water from the source to a raw water pump station. From there, the water is pumped to the treatment plant.

Raw water passes through a rapid mixer or an inline static mixer in the treatment plant. A chemical known as a coagulant (e.g., alum) is rapidly mixed into the water to neutralize the electrical charge of unwanted particles.

Water then moves to a flocculator fitted with paddles. With the aid of a second chemical, called polymer (or flocculant), the paddles gently mix the coagulant and polymer in the water. This slow mixing process causes dirt particles in the water to form into large heavy clumps known as floc.

The flocculated water then flows to a sedimentation tank and the heavy sticky floc clumps drop to the bottom of the basin as sludge. The cleanest water is left at the surface and the sludge is pumped out to sanitary sewers.

The clean water then passes down through filters (layers of anthracite coal, sand and gravel) which trap and remove the remaining fine suspended particles not removed during sedimentation.

Chlorine is added to the filtered water to inactivate or disinfect any remaining microorganisms. The water is now treated and ready to drink. Treated water is tested regularly to ensure its quality meets provincial regulations. Water is pumped from the storage reservoirs into a distribution system of pipes. This distribution system supplies water to homes.

Measuring for increased efficiency and reduced costs: UVA measurements and coagulant dosage

Coagulants and flocculants are formulated to help separate suspended solids and organic matter from water. The coagulation-flocculation process is a major step in the production of potable water, allowing for the removal of finely dispersed solids and other contaminants during the water treatment process.

Excessive coagulant dosing or under-dosing can affect water quality and result in increased water treatment costs. On an ongoing basis, SaskWater obtains data at each of its water treatment plants to distinguish the relationship between ultra violet absorbency (UVA) and coagulant dosage.

Dissolved ultra violet absorbing substances often play a major role in the type of water purification process selected. Enhanced treatment may be required for certain substances; and continuous ultra violet absorbency measurements can help determine the required dosage of coagulants.

In the future, it is anticipated that water treatment plants could be equipped with continuous online UVA monitoring systems that would simultaneously set and vary the required coagulant dosage, resulting in improved overall treatment efficiency and reduced coagulant and chemical usage.

Monitoring for safety and effectiveness: UVA and THM formation

In the water industry, measuring UVA (ultra violet absorbency) is emerging as a surrogate parameter for the measurement of THMs (trihalomethanes). THMs are compounds that form when chlorine used in the water treatment process reacts with any organic matter that may be present in the water.

THMs are monitored to evaluate the effectiveness of the treatment processes and to assess health risk. THMs have been linked to asthma, cancer of the bladder and colon, skin disorders, and other health concerns.

SaskWater continues to assess the ultra violet absorbency (UVA) of treated water at each of its water treatment plants to distinguish the relationship between UVA to total THMs. The UVA readings are easily obtained (in less than five minutes by a portable UVT Meter) and can provide a ready indication of resultant THM in the treated water, providing an alternative to conducting repeated and more expensive THM tests.

Typical wastewater treatment process

Wastewater is typically defined as liquid waste generated by domestic, institutional, commercial and industrial uses of potable and non-potable water.

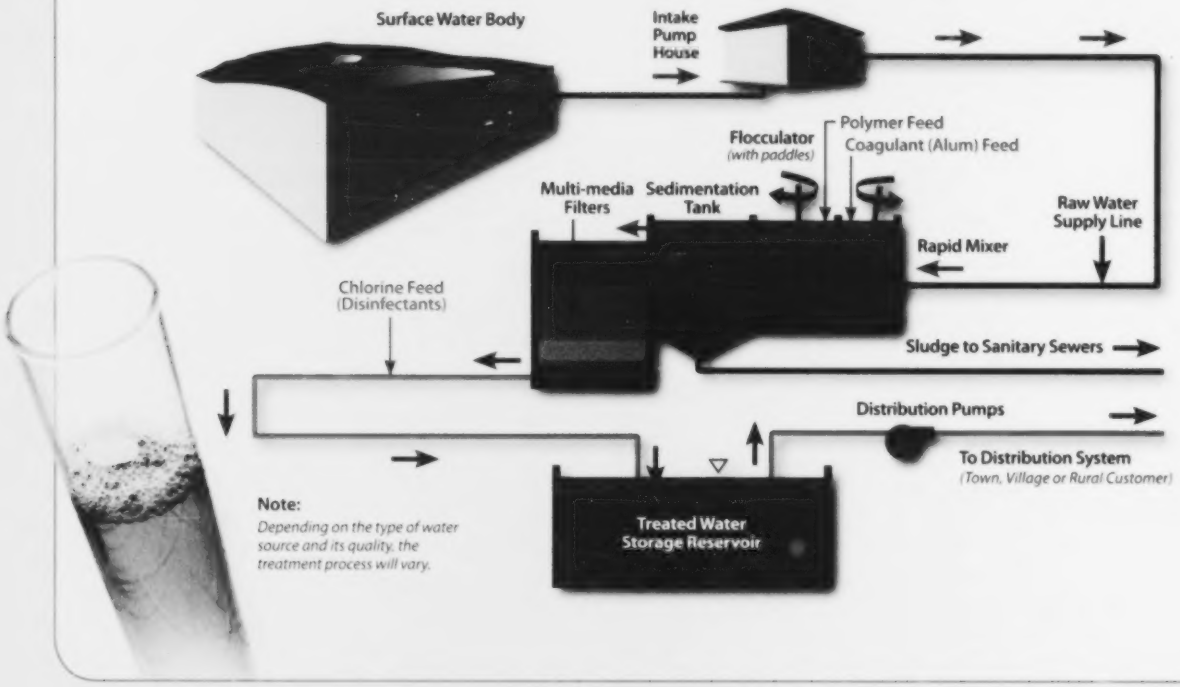
The main objectives of wastewater treatment are: the removal of suspended and floatable material; the reduction of biodegradable organics; the removal of nutrients; and the elimination of pathogenic organisms.

The above-mentioned objectives are achieved by passing the wastewater through a train of treatment processes. They vary – from simple lagoon-based treatment alternatives that are common across Canada – to more complex mechanical, biological and chemically-aided treatment systems.

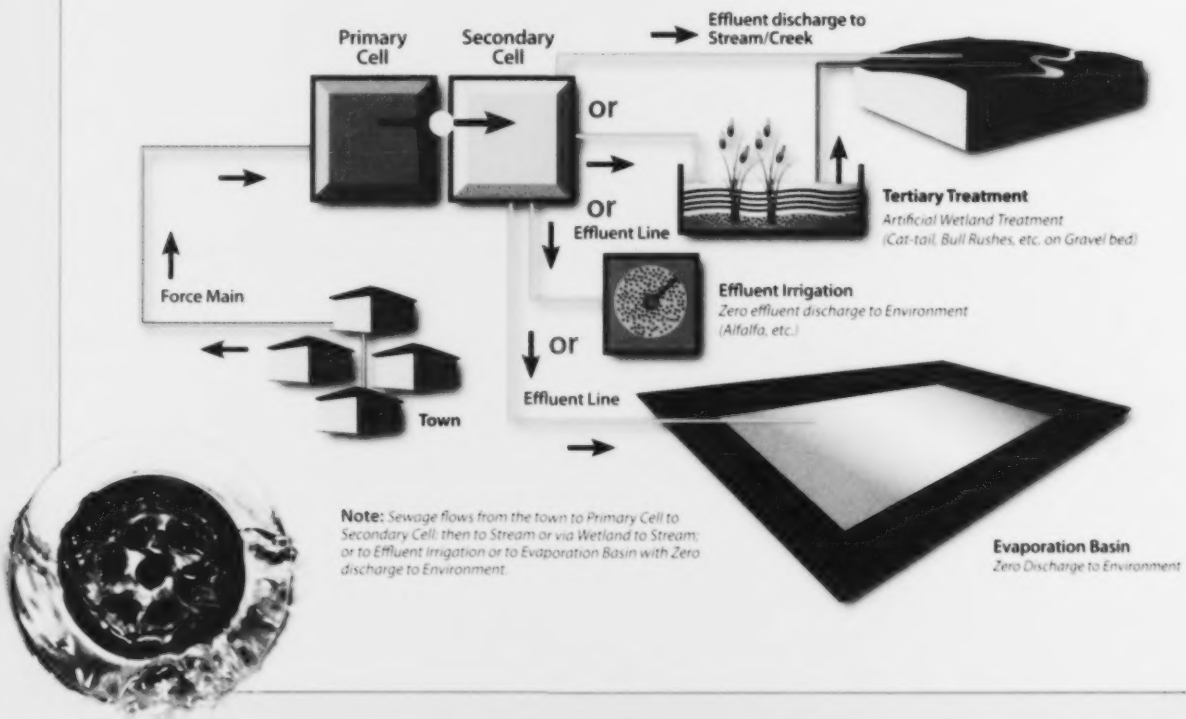
Once the wastewater effluent has been treated to a level stipulated by Saskatchewan Environment, an appropriate effluent disposal method is employed. The disposal methods range from: effluent irrigation of alfalfa fields (or poplar woodlots, an emerging technology/trend); evaporation ponds; or discharge to a receiving water body.

The degree of treatment required and the appropriate disposal strategy are determined after a detailed assessment on any health and environmental impacts that may result from the disposal of the treated effluent.

Typical surface water treatment process



Typical wastewater treatment process


Primary Cell
Secondary Cell
Effluent discharge to Stream/Creek
or
or
Effluent Line
Tertiary Treatment
Artificial Wetland Treatment
(Cat-tail, Bull Rushes, etc. on Gravel bed)
Force Main
Effluent Irrigation
Zero effluent discharge to Environment
(Alfalfa, etc.)
or
Effluent Line
Town
Note: Sewage flows from the town to Primary Cell to Secondary Cell; then to Stream or via Wetland to Stream; or to Effluent Irrigation or to Evaporation Basin with Zero discharge to Environment.
Evaporation Basin
Zero Discharge to Environment

In 2008, SaskWater delivered a record 5.64 billion litres of high quality drinking water and 14.65 billion litres of non-potable water to Saskatchewan communities and industry.

Ensuring Quality

The process of getting water from its source to end users can be complicated and costly. Saskatchewan communities face many challenges to provide safe, quality water to their residents, including:

- the quality and quantity of source water;
- the complexity of drinking water regulations to ensure safe water;
- finding cost-effective treatment solutions;
- the sustainability of operations and infrastructure; and
- the availability of certified staff.

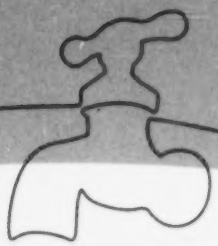
SaskWater is here to help.

SaskWater employs a number of strategies, processes and partnerships to ensure good quality water is delivered in a reliable and professional manner to its customers every day.

The true value of water incorporates the costs of getting water from its source to the taps of end users, including treatment, transmission and infrastructure maintenance. The benefits of quality water to communities include:

- the well-being and health of residents;
- retention and growth of existing population; and,
- attracting new business and industry.

Connections to QUALITY



SaskWater employs provincially-certified operators supported by highly-qualified technicians, technologists and professional engineers. This team is dedicated to supplying safe, quality water to our customers.

In addition to meeting the water quality parameters set by the province's regulator, Saskatchewan Environment, SaskWater's governing standards for water quality meet or exceed North American water quality standards. As part of our commitment to quality, we provide our stakeholders with an annual Water Quality Report detailing testing results.

Innovation and Technology

SaskWater works with engineering firms, research scientists and suppliers to develop and apply emerging technologies to provide quality drinking water to our customers. SaskWater is working with the Universities of Saskatchewan, Toronto, McMaster and Brock on a Canadian Water Network funded research project. The project is studying energy optimization; effects of unsteady flow conditions (e.g., pressure surges) on water quality in regional transmission pipelines; and other areas of applied research. It is envisioned that the ongoing study will provide valuable insight into better water system management.

SaskWater is also pilot testing aeration pretreatment. **Aeration pretreatment** oxidizes organic matter and increases dissolved oxygen levels at the water source such as a lake, reservoir or dugout. Depending on the system, this process can control algae growth and oxidize iron and manganese.

Magnetic Ion Exchange (MIEX) and membrane filtration are new emerging technologies to reduce high organic and particulate materials including chlorine-resistant pathogens such as Cryptosporidium and Giardia in surface water. In 2008, both of these processes were pilot tested by SaskWater in collaboration with Indian and Northern Affairs Canada, the Town of La Ronge and suppliers for the La Ronge Regional water supply and treatment system. The full scale testing will be undertaken in early 2009.

Effluent irrigation of poplar woodlots is an emerging trend for disposal of sewage effluent from wastewater treatment systems. The main benefits are reduced environmental impacts and the potential for zero discharge into surface water bodies. An added benefit is reduced land use when compared to standard effluent irrigation onto alfalfa.

In partnership with the City of Moose Jaw and ForestFirst, SaskWater is working towards developing a demonstration site. The demonstration project will assist in developing alternate disposal strategies in the light of new and upcoming stringent effluent discharge regulations.

Cost of Service Pricing Strategy

SaskWater has been transitioning to a rate setting process based on a Cost of Service methodology. This methodology is supported by the American Water Works Association (AWWA), a recognized authority for water utilities, as they define the accepted water pricing practices for North America. The Cost of Service methodology is the most commonly accepted basis for setting water utility rates across North America. SaskPower, SaskEnergy and TransGas use a similar Cost of Service methodology as part of their rate design and rate adjustment process.

In 2008, SaskWater's Cost of Service study was completed. Under the Cost of Service methodology, all costs to operate, maintain, manage and expand systems are recovered from customers through the rates they pay for their services. As part of this methodology, costs are allocated in an equitable manner across SaskWater's service areas and customer types to ensure fairness to customers. Customers will also benefit through more transparent rates that are simple and easy to understand.

Partnerships

SaskWater's commitment to provide reliable and professional water and wastewater services would not be realized without its strategic connection to key industry partners.

Connecting and combining expertise and ideas with industry leaders, generates successful results for SaskWater customers and everyone involved.

SaskWater has a memorandum of understanding for design and construction services with the Consulting Engineers of Saskatchewan (CES). SaskWater collaborates with CES in many areas, including the review of technology and exchange of information, experiences and best practices.

In 2007 and 2008, SaskWater partnered with CES on a Technical Exchange. Consultants, operators and regulators, including Saskatchewan Environment, met and shared knowledge to the benefit of Saskatchewan's entire water and wastewater industry. The partnership will continue in 2009.

Facilitating Growth

The Town of Aberdeen wasn't without a water supply, but with the age of the existing well equipment and in an effort to be ready for future growth, town council decided to explore the possibility of an alternative water source.

The town of almost 600 people, ideally located 40 km northeast of Saskatoon, has water. In fact, the town has good quality drinking water. However, as the town continues to grow with new homes being built and new lots becoming available, town administration decided to research the possibility of providing City of Saskatoon water.

That's where SaskWater comes in. SaskWater purchases potable (drinking) water from the City of Saskatoon and delivers it to surrounding communities, industries and rural pipeline groups through an extensive pipeline network.

"SaskWater supply is important to the town in that it increases community confidence in the quality and ensures a reliable source for the long-term," said Aberdeen Mayor Glen Ogilvy. "The new supply also establishes a strong message to new homebuyers who will no longer be concerned with moving to a dying town versus a growing town."

Throughout 2008, SaskWater worked with the town on project development and the signing of a water supply agreement. In 2009, the pipeline and booster station will be constructed and Aberdeen residents are expected to have new water running through their taps before the end of the year.

"Since Aberdeen and SaskWater began discussions, a lot of different concepts and methods were used to reach a workable solution for everyone involved," said Mayor Ogilvy. "We trust that we will continue this positive relationship into the future."

Glen Ogilvy,
Mayor of Aberdeen

Connections to COMMUNITY

SaskWater's work with the Town of Aberdeen also included another new customer – the Highway 41 Water Utility. In fact, the discussions already underway between the Highway 41 Water Utility and SaskWater contributed to the town of Aberdeen's participation.

In conjunction with the water supply agreement signed between SaskWater and Aberdeen, an agreement was also executed between SaskWater and the Highway 41 Water Utility for service on the same distribution system. This rural pipeline group will supply water to many rural households in the RM of Aberdeen. Both customers will receive service from SaskWater's Saskatoon Northeast Potable Water Supply System.

In 2008, SaskWater was able to work towards a Certified Operations and Maintenance (COM) contract with new customers ATCO Frontec Corp. at 15 Wing Moose Jaw and the Interlake Regional Water Board. As well, renewed COM services were finalized with existing customers Star City and Halbrite.

SaskWater owns more than 800 km of pipeline connecting people and communities to reliable and professional water and wastewater services and indirectly connects to many more through the pipeline networks of its 57 rural pipeline group customers. These customers, including the Melfort Rural Pipeline Association and the North Central Rural Pipeline Association, connect to SaskWater pipelines at several locations throughout Saskatchewan to distribute water to their customers.

In 14 years as a SaskWater customer, the Melfort Rural Pipeline Association (MRPA) has grown to 700 subscribers and has installed approximately 1,100 km of water pipeline to serve the rural areas surrounding Melfort, Tisdale, Eldersley, Gronlid, Weldon and Birch Hills. These subscribers include 85 connections or households in the villages of Brooksby, Gronlid, Fairy Glen and Brancepeth. Water is pumped from the Codette Lake Pump Station to SaskWater's treatment plant in Melfort. The MRPA connects to SaskWater's pipelines and extends water service 64 km east, 48 km north, 64 km west and 16 km south.

The North Central Rural Pipeline Association, a SaskWater customer since 1996, services 227 subscribers with approximately 261 km of pipeline. The association provides water to people and communities in the rural and urban areas of the RM of Bayne, the RM of Fish Creek, the RM of Hoodoo, the RM of St. Louis, the RM of Invergordon and the RM of Birch Hills as well as the Resort Village of Wakaw Lake, the Hamlet of Hagen, the Hamlet of Cudsaskwa Beach and the Hamlet of Balone Beach. The association's customers are continually increasing with an anticipated 25 to 35 new subscribers in 2009.

SaskWater also connects to the people and communities it serves through its ongoing partnership agreement with the Saskatchewan Urban Municipalities Association (SUMA).

This relationship includes a Diamond sponsorship of SUMA's annual convention, and allows the corporation to:

- **enhance relationships with existing customers and reach new customers;**
- **promote an understanding of our business;**
- **share our expertise and experience in water and wastewater management;**
- **work together to provide safe, quality water products and services to Saskatchewan municipalities.**

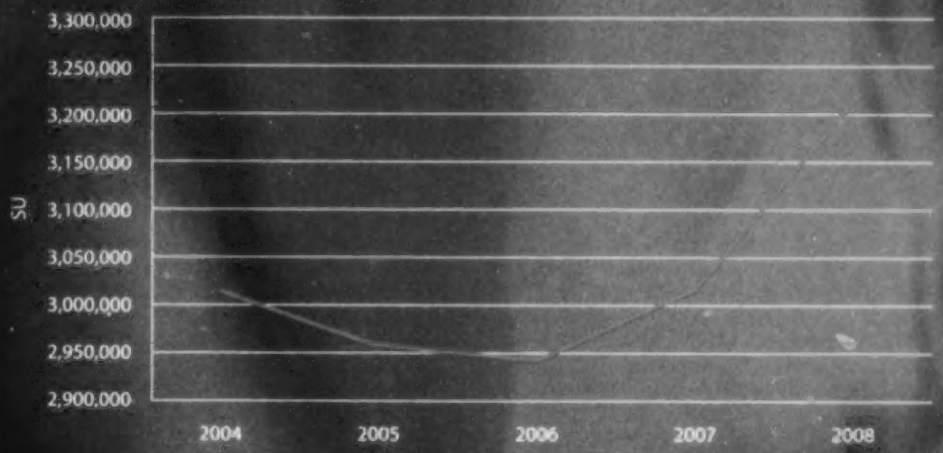
SaskWater also supports the work of organizations such as Western Canada Water, the Saskatchewan Water and Wastewater Association, the Urban Municipal Administrators Association of Saskatchewan, the Saskatchewan Stock Growers Association and the Saskatchewan Association of Rural Water Pipelines.

Industrial Supply

In 2008, SaskWater was able to deliver a record 14.65 billion litres of non-potable water, a significant increase in water volume sales over 2007 and 2006. This increase can be directly related to the overall success of SaskWater's industrial customers. Specifically, the growth in sectors such as potash, ethanol, canola processing and fertilizer production saw the volume of non-potable water supplied by SaskWater increase by a total of 6.78% over 2007.

SaskWater's 43 industrial customers make up 2/3 of the corporation's total water sales.

Annual Consumption Trend – Non-Potable



Annual Consumption Comparison (SU) 2008 vs 2007

	2008	2007	DIFFERENCE	% CHANGE
Non-Potable	3,222,895	3,018,179	204,716	6.78%
Potable	1,241,111	1,212,825	28,286	2.33%
Total Water	4,464,006	4,231,004	233,002	5.51%
Effulent	224,405	222,677	1,728	0.78%

Connections to INDUSTRY & BUSINESS

Industry

SaskWater's non-potable water supply business refers to the delivery of water that is considered not suitable for human consumption in accordance with applicable regulations.

The majority of SaskWater's non-potable water supply is delivered in large volumes to industrial customers for processing and manufacturing operations in the mining sector, fertilizer production, power production, food processing, agriculture, chemical, and ethanol and to several golf courses. SaskWater currently owns and operates non-potable water systems in the areas surrounding Saskatoon, Buffalo Pound Lake and east of Regina.

Cargill's canola crushing plant near Clavet has been a SaskWater customer since 1995. The Clavet plant is seeking additional non-potable water supply to accommodate their current expansion.

Throughout 2008, SaskWater and Cargill worked together on an agreement for SaskWater to complete capital upgrades to the existing system to meet Cargill's increased water requirements.

Saskatchewan accounts for 45% of Canadian canola production and the Clavet plant is the largest soft seed plant in North America. The processing facility produces canola oil and specialty canola oils as well as canola meal for the domestic North American and world markets.

SaskWater delivers non-potable water to five potash mines across the province: PotashCorp Cory, Allan and Lanigan; Agrium at Vanscoy; and Mosaic at Colonsay. Combined, the five mines used approximately 7.1 billion litres of SaskWater non-potable water in 2008.

Terra Grain Fuels Inc., an ethanol plant near Belle Plaine, became a SaskWater customer in late 2007, and started taking water for production purposes in 2008.

Business

In 2008, SaskWater worked towards the signing of a potable water supply agreement with Bizhub Industrial Park.

The new industrial subdivision is located within the RM of Corman Park, northeast of the City of Saskatoon and adjacent to Hwy. 16. The proposed industrial park consists of 52 lots to be developed on more than 311 acres of land and will be the largest industrial park in the province. Bizhub Industrial Park is designed to attract companies focused on transportation, manufacturing, distribution, agricultural retail and wholesalers.

SaskWater demonstrates its commitment to the growth of local business and the provincial economy throughout its operations. The percentage of goods SaskWater purchased in Saskatchewan has greatly exceeded the target, ranging from 93 per cent to 97 per cent in each of the past four years.

SaskWater also shows its support for local business by sponsoring events such as the SIAST Business & Industry Banquet in Moose Jaw, and the Sagehill 2007 YBEX awards in Bruno.

For the past three years, SaskWater has also sponsored the Young Entrepreneur of the Year award at the annual Saskatchewan Chamber of Commerce ABEX (Awards of Business Excellence) Awards, as well as the Business Innovation Award at the Moose Jaw Chamber of Commerce ABEX Awards.

The winner of the 2008 Saskatchewan Chamber of Commerce Young Entrepreneur of the Year award was Jessica Williamson, owner of Hoopla Clothing in Moose Jaw. The 2008 Moose Jaw Chamber of Commerce ABEX Award winner in the Business Innovation category was Aspen Dental, owned by Dr. Chris Geradts and Dr. Mark Mullen.

A Joint Solution

At the request of the communities affected, SaskWater became involved in a large joint water supply system solution in Northern Saskatchewan.

Throughout 2008, SaskWater provided project management services for the Lac La Ronge Regional Water Corporation – Water Supply System on behalf of La Ronge, Air Ronge and the Lac La Ronge Indian Band.

The new water supply system project includes the expansion of La Ronge's water treatment plant, the conversion of Air Ronge's water treatment plant to a water distribution plant, construction of new pipelines to connect the communities and modification to the water distribution system serving the Town of La Ronge, Village of Air Ronge and the Lac La Ronge First Nation.

"The new distribution system will be a major upgrade over the old one," said Glen Gillis, SaskWater Manager, Northern Engineering. "The treated water quality will be improved significantly."

Construction began in September 2008 with the installation of the pipeline. Pilot tests of three separate water treatment processes were set up in the La Ronge water treatment plant between June 2008 to November 2008 and the design of the upgrade to the plant was started at the end of 2008. SaskWater will continue to provide project management services through to the planned commissioning of the system in 2011.

The project is funded by the communities involved, the Northern Revenue Sharing Trust Account, Indian and Northern Affairs Canada (INAC) and Infrastructure Canada. The total project is estimated to cost $12.14 million.

Connections to FIRST NATIONS

Northern Engineering

The Lac La Ronge Regional Water Corporation – Water Supply System project is one of more than 40 northern projects SaskWater was involved with in 2008.

As a project manager, SaskWater plans and manages the design and construction of water and wastewater infrastructure on behalf of the Ministry of Municipal Affairs.

Under agreement with the Northern Revenue Sharing Trust Account Management Board, SaskWater provides program and project management for initiatives to construct and upgrade the water and wastewater infrastructure in Saskatchewan's 35 northern communities as a part of the Northern Sewer and Water Program. The goal of the Northern Sewer and Water Program is to provide safe and secure water supplies and environmentally acceptable wastewater disposal in Saskatchewan's north.

In 2008 SaskWater worked on several joint municipal/band projects. The Sandy Bay Water Supply and Treatment project, which includes building a new raw water pump station, installing a new raw water supply line and building a new water treatment plant, will supply potable water to the Northern Village of Sandy Bay and the Peter Ballantyne Cree Nation adjacent to Sandy Bay. And SaskWater is the provincial technical advisor for the Wollaston Lake Sewage Pumping Station Upgrades project which will service the Hatchet Lake Denesuline First Nation and the Northern Settlement of Wollaston Lake.

SaskWater assisted the Ministry of Municipal Affairs with development of a new program to support northern community growth and infrastructure replacement which will access funding from the Building Canada Fund (BCF). On behalf of northern communities, SaskWater submitted nine BCF applications and identified nine other critical projects.

Also in 2008, SaskWater provided program and project management to the Northern Revenue Sharing Trust Account Management Board to aid in the construction of new subdivisions through the Northern Residential Subdivision Program.

Water and Wastewater Training

SaskWater works on behalf of Indian and Northern Affairs Canada (INAC) to provide operating training to Saskatchewan First Nations. In 2008, SaskWater trained a total of 111 water and wastewater operators at 39 First Nations.

The goal of SaskWater's training program is to assist in providing a safe water supply to residents and in safeguarding their valuable water and wastewater infrastructure investment. The program began in 1978 and has evolved and expanded over the years to suit the specific water and wastewater operational needs of First Nations communities as they adapt to frequently changing technology and increasingly stringent regulatory requirements.

Benefits to First Nations communities include:

- **enhanced quality of water and wastewater operation;**
- **emergency technical assistance as required;**
- **limited service disruptions and threats to public water quality and supply;**
- **progressive operator development, including certification tutorial support;**
- **annual water consumption records collection and reporting; and**
- **representation at project management team meetings on behalf of First Nations receiving new facilities or significant facility upgrades and, upon request, participation in relevant stakeholder meetings.**

Remote Monitoring

The positive relationships SaskWater has built with First Nations communities through its operator training program have proven beneficial for both parties involved.

In 2008, SaskWater successfully planned and prepared to add services to three of those communities with funding from INAC. Big River, Witchekan Lake and Chitek Lake will be included in the communities SaskWater remotely monitors with its SCADA system in early 2009. SaskWater uses the Supervisory Control and Data Acquisition (SCADA) system to remotely monitor SaskWater's owned and contracted systems across the province 24 hours a day 365 days a year.

Aboriginal Advisor to the President

Dean Bellegarde works as SaskWater's Aboriginal Advisor to the President. This role is a part of SaskWater's commitment to increase its services to First Nations communities across Saskatchewan.

Bellegarde, a former Chair of the File Hills Qu'Appelle Tribal Council, joined SaskWater in June of 2007 after the need for the position was recognized by SaskWater's executive. Bellegarde's responsibilities as Aboriginal Advisor to the President fall into three areas: business development, human resources and communications. He meets with Tribal Councils and individual Bands to ensure they understand what SaskWater can offer; and as a member of SaskWater's Human Resources Advisory Committee, he's helping to review SaskWater's employment policies to improve the recruitment and retention of Aboriginal employees.

Encouraging Excellence

Cal Stewart isn't required to have his Gold Seal in order to execute his duties as a Senior Project Supervisor at SaskWater, but he pursued the certification as a testament of his commitment to his work.

The CCA Gold Seal Certification Program is a national certification program for construction Project Managers, Superintendents, Estimators and Owner's Project Managers. Certification is based on the candidate's education, experience and their ability to satisfy the rigorous standards of the program.

"When I researched it, I found a lot of contracts both in the private and public sector are asking for Gold Seal Certification. I thought if we start to specify that as well, we should have someone who is familiar with the program," said Cal who works in the Construction and Maintenance Engineering Unit.

Cal was encouraged to look into getting his Gold Seal Certification from his supervisor because Gold Seal is recognized throughout the industry as having a sense of professionalism and integrity attached to it.

Cal, who has been with SaskWater for 23 years and has worked in the industry for 32 years, had to submit an application outlining his previous experience, education and the details and size of projects he has worked on. His application was reviewed by the Saskatchewan Construction Association and then the Canadian Construction Association who approved the certification.

Connections to EMPLOYEES

At SaskWater, employees are the corporation's most important asset and act as a valuable connection to our customers, industry contacts and the general public.

The past year has been one of increased commitment to involving staff in planning and decision-making, recognizing that each employee is an expert in their area of the business.

Headquartered in Moose Jaw, SaskWater employs about 100 employees, 89 of whom are permanent, working in 12 communities across Saskatchewan.

SaskWater applies a recruitment strategy that ensures we have the right people with the right skills at the right time, providing employment opportunities in the areas of – engineering; operations; sales and marketing; and corporate and human services.

At SaskWater, we operate in a unionized environment; 63 of our permanent employees are members of the Communications, Energy and Paperworkers Union, Local 820.

In 2008 several initiatives were completed that relate directly to employee relationships such as in-scope job evaluation and collective bargaining.

Diversity

At SaskWater, we also understand the importance of a diverse workforce to support not only our operations, but to help us continue to be an innovative and forward-looking corporation in Saskatchewan.

In 2008, designated equity group members – Aboriginal persons, persons with disabilities, women in under-represented roles and visible minorities – represented 24% of SaskWater's workforce.

To further support diversity at SaskWater, we continue to partner with the First Nations University of Canada (FNUC) to deliver the Aboriginal Cultural Awareness Program (ACAP) to SaskWater employees. In 2008, 15 of our employees attended ACAP.

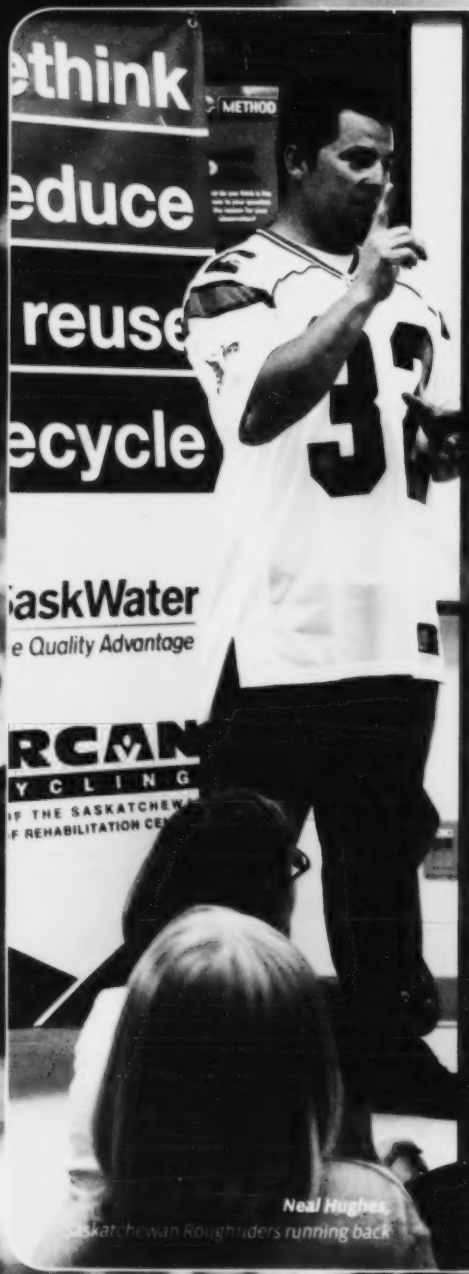
Our employees also attend Respect in the Workplace interactive workshops. Employees develop an understanding of how beliefs and values shape behaviour; and they learn how to bridge differences in the workplace. Eleven of our employees attended this training in 2008.

Training

To further support SaskWater employees, we encourage and support training in the areas of ongoing education and professional development.

Training is offered to upgrade the knowledge and skills of employees. This increases organizational effectiveness by raising overall employee performance. Access to employee training and development is not only valuable to current SaskWater employees, but is valuable to job seekers and can be marketed and used as a recruiting and retention tool.

In 2008, SaskWater committed 3% of base salary towards training and development. Ninety-two employees took part in these initiatives which included continuing their formal education and attending conferences, workshops and seminars.



Neal Hughes,
Saskatchewan Roughriders running back

What does "P" stand for? What does "R" stand for? What does "O" stand for? I can't hear you!

Pride, Respect and One Play At A Time, that's what it takes to be a Sustainability Pro.

This was the message presented by members of the Saskatchewan Roughriders during GreenZone Sustainability Blitz – Speaker Series pep rallies throughout the province in May 2008. SaskWater was a champion sponsor of the program which included school-wide pep rallies followed by water seminars under the theme "Water and Its Relation to Sustainability" in Grade 5 and 6 classrooms.

During the pep rallies, the Roughriders referred to the four Rs — Rethink, Reduce, Reuse and Recycle — as they challenged students to races based on water and energy conservation, and recycling. The students and teachers eagerly yelled out answers and shot their hands into the air when the Roughriders asked for volunteers.

During the classroom seminars, it was evident many of the players involved had backgrounds in education. The students were completely engaged as they discussed the water cycle, water composition in the body and conservation and preservation practices.

SaskWater sponsored events took place in Aberdeen, Bruno, Warman, Martensville, Wakaw, Cudworth, Bellevue, St. Louis, Muenster, Humboldt and Annaheim.

Connections to PEOPLE

Community Investment

As one of the province's commercial Crown corporations, part of SaskWater's role is to support Saskatchewan communities. This is achieved through a commitment to the social health and well-being of Saskatchewan's people.

SaskWater achieves this objective by connecting people to reliable and professional water and wastewater services, and also through Community Investment initiatives.

In 2008, SaskWater supported approximately 68 events and activities which benefitted more than 37 communities throughout the province. These sponsorships included events such as the GreenZone Sustainability Blitz – Speaker Series which visited 11 schools and reached hundreds of students, sponsorship of the Moose Jaw Festival of Trees with a tree for auction, and installation of 21 SaskWater rink board signs in customer community arenas.

Education

In the water and wastewater industry, education is important, whether it is teaching youth about how water gets to their taps, or supporting students in their post-secondary education.

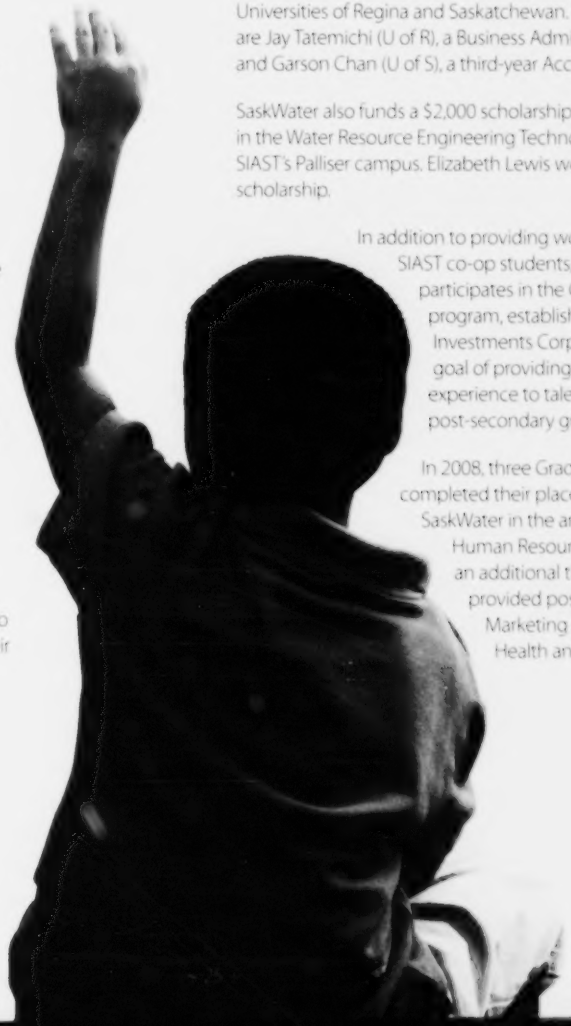
Investing in post-secondary education is investing in our future employees and the future workforce of Saskatchewan. SaskWater's scholarships, co-op terms, and internships show our commitment to recruit promising young talent in Saskatchewan.

For five years, SaskWater has provided two $3,000 scholarships to students pursuing Engineering or Business degrees at the Universities of Regina and Saskatchewan. The 2008 recipients are Jay Tatemichi (U of R), a Business Administration student, and Garson Chan (U of S), a third-year Accounting major.

SaskWater also funds a $2,000 scholarship to a student enrolled in the Water Resource Engineering Technology program at SIAST's Palliser campus. Elizabeth Lewis won the 2008 scholarship.

In addition to providing work placements for SIAST co-op students, SaskWater participates in the GradWorks intern program, established by Crown Investments Corporation, with the goal of providing valuable work experience to talented, high-potential post-secondary graduates.

In 2008, three GradWorks interns completed their placements with SaskWater in the areas of Engineering, Human Resources, and Finance and an additional three interns were provided positions in Operations, Marketing and Occupational Health and Safety.



2008 Balanced Scorecard

SaskWater is a subsidiary of Crown Investments Corporation (CIC) and receives strategic direction from CIC. SaskWater's Performance Management Strategy, informed by the Crown Sector Strategic Plan, maintains accountability to the people of Saskatchewan by reporting on key strategic objectives that drive business success. SaskWater's performance objectives and results are described in the Balanced Scorecard Report that follows.

Discussion of Results

- SaskWater continues to provide high quality water and received no boil water orders in 2008. Our detailed Water Quality Report for 2008 is being distributed with the 2008 Annual Report and is also available online at www.saskwater.com.

- In addition, SaskWater continues to provide dependable services to its customers, with fewer unplanned service interruptions occurring in 2008 than anticipated. The service interruptions that did occur lasted on average slightly more than five hours, well below the eight hour target.

- SaskWater continued to support Saskatchewan business by purchasing $6.95 million in goods and services from Saskatchewan companies, or 95% of the corporation's total purchases.

- SaskWater's focus on efficiencies resulted in the energy consumption per sales unit being substantially lower than targeted. The year end result for energy consumption per sales unit was 2.99 KWhr/SU versus the targeted 3.19 KWhr/SU.

- Water conservation is important to SaskWater, and as such, efforts have been made to reduce water losses. Transmission pipeline losses are 2.11% for the year which is better than the target of 3.50% and better than the 2007 rate of 4.44%. Overall, the water loss from SaskWater's infrastructure is very low. Typical accuracy of the measuring equipment is +/- 2% so small changes from year to year are normal and are not as significant as long-term trends.

- SaskWater completed a customer satisfaction survey in 2008 which revealed that current customers exhibited relatively high satisfaction levels of 8 on a scale of 1 to 10. The vast majority of current community/association customers (88%), and industrial customers (89%) would recommend SaskWater to other communities/associations or industries.

- SaskWater demonstrated its commitment to Saskatchewan residents in 2008 by sponsoring events in 19 communities that SaskWater serves and works in.

Profitability

GOALS	MEASURE	TARGETS 2008	RESULTS 2008
Increase Net Income	Net Income (loss)	($0.32M)	($0.91M)
Financial Sustainability	Debt to Debt and Equity	61.0%	55.2%
	Return on Equity	(0.9%)	(2.7%)
Increase Productivity	Corporate Productivity per Employee	$188K	$219K

Growth

GOALS	MEASURE	TARGETS 2008	RESULTS 2008
Increase Revenue Through New Growth	Number of new agreements [1]	4	3
	Growth in customer base	49,100	48,490
	Growth in total sales volumes ('000)	4,900	4,688
Improve Customer Satisfaction	Customer Satisfaction Survey [2]	7.8	8.0
	Customer Complaints	40	20

Quality

GOAL	MEASURE		TARGETS 2008	RESULTS 2008
Improve Service Quality	Number of service interruptions [3]	Planned Interruptions	13	12
		Unplanned Interruptions	45	30
	Average length of service interruptions		8.0 hrs	5.27 hrs
Increase Operational Efficiency	O&M per sales unit		$2.40	$2.32
Meet or Exceed Regulatory Requirements	Number of boil water orders		0	0

[1] *No small volume contracts will be counted*

[2] *The customer survey is completed on a bi-annual basis in Q4 and is based on a scale of 1 to 10*

[3] *As storage is required for most SaskWater customers, an interruption in supply does not normally mean the customer is without water. Additionally, this target will increase as Asset Management continues to advance and SaskWater assumes responsibility for new systems.*

Employer of Choice

GOAL	MEASURE	TARGETS 2008	RESULTS 2008
Build Employee Satisfaction	Annual employee satisfaction survey [4]	3.80	3.37
	Employee Turnover Ratio	6%	11%
Increase individual and team knowledge skills and abilities	Training dollars as a percentage of employees' base salaries	3.0%	3.0%
Enhance Internal Communication	Average number of Clarifier hits	95	69

Sustainability

GOAL	MEASURE		TARGETS 2008	RESULTS 2008
Social	Diversity Groups	Women in Non-Traditional or Management	19.80%	14.60%
		Aboriginal Persons	4.00%	3.10%
		Persons with Disabilities	3.00%	2.10%
		Visible Minorities	3.00%	4.20%
	Community Investment		17/54	19/55
Environmental	Energy Consumption per Sales Unit		3.19 kWh/SU	2.99 kWh/SU
	Transmission Pipelines Water Loss		3.50%	2.11%
Economic	Saskatchewan Procurement		85%	95%

[4] *The employee survey is completed on an annual basis in Q4 and is based on a scale of 1 to 5*

Management's Discussion and Analysis

2008 Results

Operating Revenues

Operating revenues increased by $1.5M or 7.5% to $21.1M, up from $19.6M in 2007.

- Revenues in Non-Potable water supply increased by $0.1M from $7.9M in 2007 to $8.0M in 2008. The nominal increase in revenue is consistent with volumes for the year.
- Revenue in Potable water supply increased by $0.4M over 2007 to $10.0M in 2008 as a result of increased sales volumes.
- Revenues from Wastewater treatment increased by $0.1M over 2007 due to receiving a full year's revenue in 2008 versus 10 months in 2007 from a new system that commenced operations in March 2007.
- Revenues in Certified Operations and Maintenance increased by $0.1M due to two new customers commencing service during the second half of 2008.
- Services revenue increased by $0.6M from 2007. Services include:
  - Municipal Project Management,
  - Program and Project Management for the Northern Water and Sewer Program funded by Municipal Affairs,
  - First Nations operator training and technical support, and
  - Audit and Emergency Services

Municipal Project Management contracts account for $0.5M of the increase as revenue from this line of business is on an as needed basis. The remaining $0.1M is as a result of increased activity in the First Nations operator training and technical support line of business.

Operating Expenses

Total operating expenses increased by $1.9M or by 9.4% to $22.1M from $20.2M in 2007.

- Expenses in Non-Potable water supply increased by $0.3M, from $2.1M in 2007 to $2.4M in 2008. This is the result of the increased bulk water and utilities costs and increased repairs and maintenance costs throughout the non-potable systems.
- Expenses in Potable water supply increased by $0.5M or 8.3%. This increase is a result of increased costs for purchasing bulk water (attributable to higher volumes and costs), increased costs for repairs and maintenance as well as increased business development efforts with respect to potable water.
- Expenses in Wastewater treatment increased by $2.0M in 2008. The increase in costs for the year is directly related to a special service provided to one of our customers for which the corporation received reimbursement through other revenue.
- Expenses in Certified Operations and Maintenance have increased by $0.1M over 2007 as a result of providing services to two new customers during the second half of 2008.
- In total, expenses for Services (Municipal Project Management, Northern Water and Sewer Program for Municipal Affairs, First Nations operator training and technical support, and Audit and Emergency Planning) have increased $0.5M over 2007. Municipal Project Management costs represent the majority of the increase and are consistent with the increased project management revenue recorded in 2008.
- Overhead and administration expenses increased marginally over 2007. During 2008 SaskWater saw an increase in salaries that was almost entirely offset by savings in other overhead and administration expense categories.
- Interest expense decreased by $0.2M as a result of favorable short term interest rates as compared to 2007.

Volumes

- Total water sales volumes increased to 21.3 billion litres which is up from 20.2 billion litres in 2007. Sales to existing industrial customers increased 5.4% which is attributable to major industrial customers increasing flows to meet their demands. Sales to municipal customers were up 2.9% due to community growth.

Capital Investment

In 2008, $4.3M was spent on capital new construction and expansion projects, asset management programs, and infrastructure management on existing projects. Significant projects include:

- Design of the Saskatoon Northeast Potable Water Supply System to supply water to Aberdeen and area rural users;
- Construction of upgrades to the North Booster Station on the Saskatoon North Potable Water Supply System to accommodate growth in communities north of Saskatoon;
- Construction of a well head control building to bring a new well on line on the Regina East Non-Potable Water Supply System to meet growth in communities east of Regina;
- Construction of a new primary water main to provide an improved water connection from the City of Saskatoon for the Saskatoon East Potable Water Supply System to accommodate growth in communities and rural users east and south of Saskatoon; and,
- Design and construction of a booster pump station on the Saskatoon East Non-Potable Water Supply System to meet increased customer demands.

Net Income (profit/loss)

SaskWater had a net loss from operations for 2008 of $1.0M compared to a net loss from operations of $0.6M for 2007.

- Net loss after grant funding increased from a net loss of $0.5M in 2007 to a net loss of $0.9M in 2008. In 2007 and 2008, CIC provided grant funding of $0.1M under its Aboriginal Advisor program.

Key Performance Factors

- About 38% of total revenue is derived from the sale of non-potable water to industrial customers for use in their processes. Changes in their production cycles due to market factors affect SaskWater's sales.
- Weather affects sales to municipals customers. Drought increases sales while cool, wet weather reduces sales.

Key Financial Data

- Assets total $79.1M (2007 – $77.1M)
- SaskWater will not declare a dividend to CIC in 2008
- Return on equity (loss after operating grant as a percentage of equity) is (2.7%)
- Debt ratio (debt as a percentage of debt plus equity) is 55.2%

Future Accounting Changes – International Financial Reporting Standards (IFRS)

In February, 2008, the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The CICA is currently deliberating the definition of publicly accountable enterprises as it applies to government entities including SaskWater. At this time the final outcome of these deliberations is not determinable and therefore the need for SaskWater to adopt IFRS has not been firmly established. However, given the considerable effort required to prepare for the adoption of IFRS within the communicated timelines, SaskWater is proceeding under the assumption that adoption of IFRS will be required.

SaskWater has commenced an IFRS conversion project including initiating the development of high level IFRS implementation plans. An external advisor has been engaged to assist with the development of plans and to perform a detailed review of major differences between current Canadian GAAP and IFRS. Board members have been briefed on IFRS, in general, with SaskWater project plans expected to be reviewed by the Board of Directors in the first half of 2009.

Management and staff from SaskWater have participated in detailed IFRS training seminars. In conjunction with Crown Investments Corporation (CIC) and other Crown Corporations, project teams have completed an initial assessment of those international financial reporting standards with the highest potential for impacts on either individual Crowns or for the Crown sector as a whole. Based on the analysis to date, the most significant areas of difference are related to accounting for property, plant and equipment, asset retirement obligations, and financial statement disclosures. Working groups have been formed to review identified standards in detail and discuss specific issues as a basis for ensuring common understanding and, where possible, consistency in approaches to issue resolution. Selection of cross sector and/or Crown specific accounting policies has begun. At this time, the impact of IFRS on SaskWater's processes, systems, internal controls over financial reporting and disclosures, future financial position and results of operations is not reasonably determinable. Draft impacts on processes, systems and controls as well as draft IFRS financial statement presentation formats are anticipated in the second half of 2009.

As part of the IFRS implementation, SaskWater plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

Management's responsibility

Management has prepared the financial statements of the Corporation in accordance with Canadian generally accepted accounting principles. The financial data included elsewhere in this report is consistent with these statements and the underlying information from which the Corporation prepared them.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, the Corporation maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

Deloitte & Touche LLP, the Corporation's external auditors, have examined the December 31, 2008 financial statements and their report follows.

The Board of Directors of SaskWater has examined and approved the statements.

On behalf of the Corporation,

Stuart Kramer

Stuart Kramer, President
February 19, 2009

Auditors' report

To the Members of the Legislative Assembly Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Water Corporation as at December 31, 2008 and the statements of operations and comprehensive loss, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Deloitte & Touche LLP

Regina, Saskatchewan
February 19, 2009

Statement of Financial Position

as at December 31

	2008	2007
	(Thousands)	
Assets		
Current assets		
Cash	$ 619	$ 255
Accounts receivable and advances	4,050	3,596
Prepaid expenses and supplies	274	491
Current portion of long-term receivables (note 4)	16	15
	4,959	4,357
Long-Term Receivables (note 4)	–	16
Investment – Sinking Funds (note 5)	1,541	749
Property, Plant and Equipment (note 6)	72,594	72,023
	$ 79,094	$ 77,145
Liabilities and Province of Saskatchewan's Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 3,819	$ 3,143
Notes payable (note 7)	16,221	23,074
Current portion of long-term debt (note 9)	4,662	1,121
	24,702	27,338
Deferred Revenue and Prepayments (note 8)	358	279
Long-Term Debt (note 9)	21,055	15,615
Other Long-Term Obligations (note 10)	256	285
	46,371	43,517
Province of Saskatchewan's Equity		
Equity advance (note 11)	700	700
Retained earnings	32,023	32,928
	32,723	33,628
	$ 79,094	$ 77,145

Commitments and Contingencies (note 12)

See accompanying notes

on behalf of the Board:

Chair

Director

Statement of Operations and Comprehensive Loss

for the year ended December 31

	2008	2007
	(Thousands)	
Revenue		
Non-Potable water supply	$ 8,008	$ 7,874
Potable water supply	9,998	9,645
Wastewater treatment	487	394
Operation and maintenance	509	416
Services	1,375	815
Other	686	446
	21,063	19,590
Expenses		
Non-Potable water supply	2,380	2,075
Potable water supply	5,782	5,340
Wastewater treatment	355	175
Operation and maintenance	570	420
Services	942	409
Overhead and administration	7,024	6,962
Amortization of property, plant and equipment	3,716	3,305
Interest	1,324	1,506
	22,093	20,192
Loss before the following	(1,030)	(602)
CIC program grants (note 13)	125	125
Net loss for the year	(905)	(477)
Other comprehensive income	–	–
Comprehensive loss	$ (905)	$ (477)

See accompanying notes

Statement of Retained Earnings

for the year ended December 31

	2008	2007
	(Thousands)	
Retained Earnings		
Retained earnings, beginning of year	$ 32,928	$ 33,473
Net loss for the year	(905)	(477)
Accounting policy change adjustments	–	(68)
Retained earnings, end of year	$ 32,023	$ 32,928

See accompanying notes

Statement of Cash Flows

for the year ended December 31

	2008	2007
	(Thousands)	
Operating activities		
Net loss	$ (905)	$ (477)
Charges and credits not affecting cash:		
Amortization of property, plant and equipment	3,716	3,305
Addition (amortization) of deferred revenue	79	(277)
Amortization of financing costs	(10)	(12)
Other long-term obligations	(29)	28
Sinking fund earnings	(66)	(22)
Loss on disposal of property, plant and equipment	9	239
Change in non-cash working capital items:		
Accounts receivable and advances	(454)	504
Prepaid expenses and supplies	217	(249)
Accounts payable and accrued liabilities	676	(639)
Cash provided by operating activities	3,233	2,400
Investing activities		
Long-term receivables	15	13
Property, plant and equipment expenditures	(4,304)	(7,542)
Proceeds on disposal of property, plant and equipment	8	11
Cash used in investing activities	(4,281)	(7,518)
Financing activities		
Proceeds from long-term debt	10,000	2,600
(Repayments of) proceeds from notes payable	(6,853)	3,368
Repayment of long-term debt	(1,009)	(940)
Sinking fund installments	(726)	(536)
Cash provided by financing activities	1,412	4,492
Change in Cash	364	(626)
Cash, Beginning of Year	255	881
Cash, End of Year	$ 619	$ 255
Interest paid during the year	$ 1,453	$ 1,694

See accompanying notes

Notes to the Financial Statements

December 31, 2008

1. Status of the Corporation

The Saskatchewan Water Corporation (the "Corporation" or "SaskWater") was established on July 1, 1984, under the authority of **The Water Corporation Act** which remained in effect until September 30, 2002.

On October 1, 2002 **The Saskatchewan Water Corporation Act** was proclaimed.

By virtue of **The Crown Corporations Act, 1993,** the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada, but is subject to Provincial corporate capital tax.

In accordance with the provisions of **The Saskatchewan Water Corporation Act,** the Corporation's general powers and purposes are to construct, acquire, manage or operate works and to provide services in accordance with any agreements that it enters into pursuant to this Act.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered to be significant:

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectability and appropriate allowance of doubtful accounts is provided where considered necessary. Amortization is based on estimated useful lives of property, plant and equipment. These assumptions are reviewed periodically and, as adjustments become necessary, they are reported in income in the period in which they become known.

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and SaskWater's designation of such instruments. Trade date accounting is used.

Cash	Held for Trading
Accounts Receivable and Advances	Loans and Receivables
Long-term Receivables	Loans and Receivables
Sinking Funds	Held for Trading
Accounts Payable and Accrued Liabilities	Other Liabilities
Notes Payable	Other Liabilities
Long-term Debt	Other Liabilities

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

Notes to the Financial Statements

December 31, 2008

2. Significant Accounting Policies – continued

Financial Instruments – continued

Loans and receivables, other liabilities, and held to maturity financial assets are recorded at amortized cost using the effective interest method.

Transaction costs related to held for trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

The Corporation uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

Capitalization of Expenses

Internally provided engineering and technical services are capitalized at standard labour rates designed to recover salaries, benefits and overhead. The objective of this policy is to recognize the approximate value of design, supervision and administrative services rendered by Corporation employees on construction projects.

Property, Plant and Equipment

Property, Plant and Equipment are recorded at cost less amortization. Assets under construction are capitalized at cost, and are transferred to the appropriate asset category when construction is complete and the asset is in use. Assets are capitalized at cost net of any subsidies or contributions received for that specific purpose.

The Corporation reviews assets for impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate.

Amortization of Property, Plant and Equipment is calculated at the following annual rates designed to amortize the recorded cost over the estimated useful lives of the capital assets. Assets under construction transferred to the appropriate asset category before June 30th are amortized for the full year, otherwise the assets are not amortized until the following year.

Property, Plant and Equipment	Method	Rate
Building	straight-line	2.5% to 5%
Water facilities	diminishing balance or straight-line, as appropriate	2% to 30%
Maintenance and office equipment	diminishing balance or straight-line, as appropriate	10% to 30%

Post Retirement Benefits Other Than Pension

The Corporation administers a benefit relating to a retirement allowance which is paid to eligible employees upon retirement. The Corporation has adopted the accrual method of accounting for this benefit whereby the cost of providing the benefits is recorded when the related services of employees are performed.

Notes to the Financial Statements

December 31, 2008

2. Significant Accounting Policies – continued

Revenue Recognition

Revenue is recognized as products and services are delivered or rendered based upon agreed upon rates and contracts. Revenue received in advance of products and services being delivered or rendered are recorded as deferred revenue.

Future Accounting Policy Changes

In February, 2008 the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures. The Corporation has commenced an IFRS conversion project including initiating the development of a high level IFRS implementation plan. An external advisor will be engaged to assist with the development of this plan and to perform a detailed review of major differences between current Canadian GAAP and IFRS.

At this time the impact on the Corporation's future financial position and results of operations is not reasonably determinable. However, based on the analysis to date the most significant areas of difference are going to be related to accounting for property, plant and equipment, asset retirement obligations and financial statement disclosures. As part of the IFRS implementation the Corporation plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

3. Change in Accounting Policies

Effective January 1, 2008, the Corporation adopted the accounting recommendations for capital disclosures (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535) in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether externally imposed capital requirements have been complied with. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results. The required disclosure is provided in Note 11.

Effective January 1, 2008, the Corporation adopted the accounting recommendations for financial instruments - disclosures (CICA Handbook Section 3862) and financial instruments - presentation (CICA Handbook Section 3863) in accordance with the transition provisions of the sections. These sections replace the existing disclosure and presentation recommendations contained in financial instruments - disclosure and presentation (CICA Handbook Section 3861). The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results. The required disclosure is provided in Note 16.

Effective January 1, 2008, the Corporation adopted the accounting recommendations for inventories (CICA Handbook Section 3031). The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs for increases to net realizable value. There is no significant impact on the Corporation's operating results as a result of implementing the new recommendations.

Notes to the Financial Statements

December 31, 2008

4. Long-Term Receivables

Year Receivable	2008	2007
	(Thousands)	
2008	$ –	$ 15
2009	16	16
	16	31
Less: Current portion of long-term receivables	(16)	(15)
	$ –	$ 16

Amounts represent loans issued to various clients for water supply agreements bearing interest at 10%, repayable in 2009.

5. Investment – Sinking Funds

Under conditions attached to the Canada Pension Plan Investment Board long-term debt issues from the Province of Saskatchewan's General Revenue Fund (GRF), SaskWater is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. The investment, referred to as sinking funds, are administered by Saskatchewan's Ministry of Finance. The investments in sinking funds are held by the Province of Saskatchewan. The yield on the investments was 4.90 per cent for 2008 (3.87 per cent for 2007). Sinking funds are held for trading financial assets and are recorded at fair value on the statement of financial position. Sinking fund instalments due in each of the next five years are as follows:

	(Thousands)
2009	$ 162
2010	162
2011	162
2012	162
2013	162
	$ 810

6. Property, Plant and Equipment

	2008			2007
		(Thousands)		
	Cost	Accumulated Amorrization	Net Book Value	Net Book Vvalue
Land	$ 1,552	$ –	$ 1,552	$ 1,550
Buildings	2,336	892	1,444	1,372
Water facilities	107,527	45,383	62,144	63,178
Maintenance equipment	2,130	1,372	758	683
Office equipment	988	387	601	800
Assets under construction	6,095	–	6,095	4,440
	$ 120,628	$ 48,034	$ 72,594	$ 72,023

Internally provided services capitalized during the year amounted to $765,000 (2007 - $1,143,000). As well, the Corporation capitalizes interest expense on debt relating to specific construction projects until the projects are substantially completed. During the year, $119,000 (2007 - $143,000) of interest was capitalized.

Notes to the Financial Statements

December 31, 2008

7. Notes Payable

Due Date	Interest Rate	2008	2007
		(Thousands)	
March 31, 2009	1.35%	$ 16,221	$ –
March 31, 2008	3.88%	–	23,074
		$ 16,221	$ 23,074

By Order-in-Council, SaskWater is authorized to borrow up to $30 million (2007 - $30 million) by way of temporary loans from the Province of Saskatchewan's General Revenue Fund (GRF).

8. Deferred Revenue

Deferred revenue represents revenue received from certain customers at the commencement of supply or service. These prepayments are amortized into revenue at 5% over the term of the contract on a straight-line basis or are matched against annual expenses.

	2008	2007
	(Thousands)	
Balance, beginning of year	$ 279	$ 556
Addition of prepayments	262	–
Amortization of prepayments	(183)	(277)
Balance, end of year	$ 358	$ 279

Notes to the Financial Statements

December 31, 2008

9. Long-Term Debt

	2008	2007
	(Thousands)	
Serial Bond of $1,009,000, stated rate of 7.750% (effective rate of 7.596%), due Sept 17/08, net of unamortized financing costs of $1,000.	$ –	$ 1,010
Provincial Euro MTN of $4,500,000, stated rate of 4.750% (effective rate of 4.524%), due Sept 24/09, net of unamortized financing costs of $10,000.	4,510	4,519
CPP Investment Board of $5,000,000, stated rate of 3.800% (effective rate of 3.800%), due Dec 1/13.	5,000	–
CPP Investment Board of $2,407,000, stated rate of 4.300% (effective rate of 4.300%), due Dec 12/15.	2,407	2,407
CPP Investment Board of $2,400,000, stated rate of 4.210% (effective rate of 4.210%), due Jan 10/16.	2,400	2,400
CPP Investment Board of $2,600,000, stated rate of 4.460% (effective rate of 4.460%), due May 11/17.	2,600	2,600
CPP Investment Board of $5,000,000, stated rate of 4.450% (effective rate of 4.450%), due Dec 3/18.	5,000	–
CPP Investment Board of $2,100,000, stated rate of 5.320% (effective rate of 5.320%), due Mar 1/24.	2,100	2,100
CPP Investment Board of $1,700,000, stated rate of 5.050% (effective rate of 5.050%), due Apr 10/25.	1,700	1,700
	$ 25,717	$ 16,736
Less: Current portion of long-term debt	(4,500)	(1,009)
Current portion of sinking fund instalments	(162)	(112)
	$ 21,055	$ 15,615

These loans are payable to the Province of Saskatchewan's GRF with interest payable semi-annually.

	(Thousands)
2009	$ 4,500
2010	–
2011	–
2012	–
2013	5,000
	$ 9,500

Notes to the Financial Statements

December 31, 2008

9. Long-Term Debt – continued

Interest on long-term debt for the year using the effective interest method is as follows:

	2008	2007
	(Thousands)	
Interest on long-term debt	$ 976	$ 806
Amortization of financing costs	1	1

10. Other Long-Term Obligations

The amounts related to the defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union are as follows:

	2008	2007
	(Thousands)	
Accrued benefit liability	$ 256	$ 285
Benefits paid during the year	$ 29	$ 18
Net expense	$ –	$ 46

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

Discount rate	7.20%	5.00%
Inflation rate	2.50%	2.50%
Average remaining service life	17.4 years	17.6 years

11. Equity Advance and Capital Disclosure

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

The Corporation's debt management plan is built on the goal of ensuring the capacity to meet long term obligations and ensuring financial health, while achieving the growth plans of the Corporation.

As a Crown corporation, SaskWater receives its long-term capital funding primarily from the Saskatchewan Ministry of Finance. SaskWater also has access to a $30 million line of credit extended by the Saskatchewan Ministry of Finance which is used to manage short-term liquidity.

The Corporation's capital consists of notes payable, long-term debt and equity less sinking funds.

Notes to the Financial Statements

December 31, 2008

11. Equity Advance and Capital Disclosure – continued

The Corporation monitors capital on the basis of the debt ratio. The current long-term debt ratio target is 60%, which is consistent with the prior period. The debt ratio is calculated as net debt divided by end of period capitalization as follows:

	2008	2007
	(Thousands)	
Gross long-term debt	$ 25,717	$ 16,736
Notes payable	16,221	23,074
Sinking funds	(1,541)	(749)
Net debt	40,397	39,061
Total equity	32,723	33,628
Capitalization	$ 73,120	$ 72,689
Debt ratio	55.2%	53.7%

The Corporation has complied with all externally imposed restrictions on its debt for the year ended December 31, 2008.

12. Commitments and Contingencies

Contractual Commitments

As of December 31, 2008, the Corporation has outstanding commitments of $2,493,000 (2007 - $2,133,000) for construction contracts and consulting agreements primarily relating to assets under construction and other service contracts.

As of December 31, 2008, the Corporation is currently in negotiation with the landlord concerning the head office lease space. The Corporation has entered into an interim agreement with the landlord on a month to month basis with a commitment from the landlord that the base rent per square foot will not be greater than the Corporation was paying under the prior agreement.

Leases

The Corporation has entered into various operating lease agreements with the following minimum lease payments:

	(Thousands)
2009	$ 39
2010	27
2011	9
2012	2
2013	-
	$ 77

Litigation

The Corporation has provided, in its accounts, for any known claims from lawsuits or other legal proceedings for which there is material risk of liability to the Corporation in accordance with management's best estimates and the advice received from legal counsel. The Corporation intends to account for any differences which may arise between amounts provided and amounts expended in the period in which the claims are resolved.

Notes to the Financial Statements

December 31, 2008

13. Grants from CIC

SaskWater participated in the CIC sponsored Aboriginal Advisor Program in 2008. During the year, the Corporation received related grant revenue of $125,000 (2007 - $125,000) from CIC.

14. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms except for revenue which is at rates negotiated between SaskWater and related parties. These transactions, and amounts outstanding at year end, are as follows:

	2008	2007
	(Thousands)	
Accounts receivable	$ 107	$ 402
Accounts payable and accrued liabilities	695	547
Revenue	1,881	2,838
Expenses	5,851	6,113

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to Saskatchewan's Ministry of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

15. Pension Plan

SaskWater's employees participate in the Capital Pension Plan (the Plan), a defined contribution pension plan which is sponsored by CIC. The Corporation's contributions to the Plan include making regular payments into the Plan equal to 150% of the required amounts contributed by employees for current service. The total amount paid to the Plan for 2008 was $449,000 (2007 - $381,000).

16. Financial Instruments & Risk Management

The Corporation's financial instruments consist of cash, accounts receivable and advances, long-term receivables, investments in sinking funds, accounts payable and accrued liabilities, notes payable and long-term debt.

Fair value of long-term receivable approximates its carrying value due to the nature of the receivable and the relatively short-term to maturity.

Fair value of notes payable approximates its carrying value due to the short term nature of the loan, whereby the interest rate is adjusted quarterly to reflect current market conditions.

Notes to the Financial Statements

December 31, 2008

16. Financial Instruments & Risk Management – continued

Fair Values

The fair values of cash, accounts receivable and advances and accounts payable and accrued liabilities approximate their carrying value due to the short-term nature of these instruments.

	2008		2007	
	(Thousands)			
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$ 25,717	$ 26,664	$ 16,736	$ 16,989
Sinking Fund	1,541	1,541	749	749

The estimated fair values of these financial instruments have been determined based on the following methods and assumptions, and may not represent the amounts that could be realized upon settlement.

All long-term debt obligations are estimated using discounted cash flow analysis based on current market yields for similar arrangements. Sinking funds are valued at closing period-end unit prices received from the Saskatchewan Ministry of Finance.

Market Risk – Commodity Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Sinking funds are monies set aside to retire outstanding debt upon maturity. The Corporation is required to pay annually into debt retirement funds which are held and invested by the Saskatchewan Ministry of Finance. The Corporation has classified these investments as held for trading and therefore recognized the change in the market value in net income for the period. The impact of fluctuations in market prices related to these investments will not be significant and, therefore, management has not provided a sensitivity analysis of the impact.

Market Risk – Interest Rate Risk

The Corporation is exposed to interest rate risk on the maturity of its long-term debt. However, in the current low interest rate environment, these risks are considered low. Interest rate risk on these expected future borrowings are managed based on the refinancing needs of the Corporation using derivative financial instruments when deemed appropriate. The Corporation has no financial contracts in place to offset interest rate risk as of December 31, 2008. The change in rate would have no impact on net income due to classification of long-term debt as other liabilities.

Market Risk – Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Corporation is exposed to currency risk, primarily US dollars, through transactions with foreign suppliers and short-term foreign commitments. The Corporation uses a combination of derivative financial instruments to manage these exposures when deemed appropriate. The Corporation does not actively trade derivative financial instruments. At December 31, 2008 there were no derivative financial instruments outstanding.

Liquidity Risk

Liquidity risk is the risk that the Corporation is unable to meet its financial commitments as they become due. SaskWater manages the Corporation's cash resources based on financial forecasts and anticipated cash flows. The following summarizes the contractual maturities of the Corporation's financial liabilities at December 31, 2008:

Notes to the Financial Statements

December 31, 2008

16. Financial Instruments & Risk Management – continued

Liquidity Risk – continued

(Thousands)

	6 mos. or less	7-12mos.	Subsequent 1 yr	Subsequesnt 3–5 yrs	More than 5 yrs
Accounts Payable	$ 3,819	$ –	$ –	$ –	$ –
Long-term debt1	465	5,179	931	7,792	20,234
Notes Payable	16,275	–	–	–	–
	$ 20,559	$ 5,179	$ 931	$ 7,792	$ 20,234

1. The amounts reflected do not include $10 of unamortized debt premiums and commissions.

Future cash flows from operations and availability under existing credit facilities will be adequate to support these financial liabilities.

Credit Risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentrations of credit risk relate to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Corporation is not exposed to a significant concentration of credit risk. The maximum credit risk to which the Corporation is exposed as at December 31, 2008 is limited to the fair value of the financial assets recognized as follows:

	2008	2007
	(Thousands)	
Cash	$ 619	$ 255
Accounts receivables and advances		
Current	2,924	2,633
31 - 60 days	14	17
61 - 90 days	9	6
Over 90 days	771	524
Subtotal	3,718	3,180
Allowance	(276)	(128)
	3,442	3,052
Accrued receivables and advances	608	544
Sinking funds	1,541	749
	$ 6,210	$ 4,600

Provisions for credit losses are maintained and regularly reviewed by the Corporation based on an estimate of outstanding amounts that are considered uncollectible. Historically, the Corporation has not written-off a significant portion of its accounts receivable balances. At December 31, 2008 the Corporation had a balance of $276,000 (2007 - $128,000) recorded in the allowance for doubtful accounts.

Sinking funds are on deposit with, and being administered by, the Saskatchewan Ministry of Finance. At December 31, 2008, the Ministry has invested these funds primarily in Provincial government and Federal government bonds with varying maturities to coincide with related long-term debt maturities and are managed based on this maturity profile and market conditions. As such, the related credit risk associated with these investments as at December 31, 2008 is considered low.

Notes to the Financial Statements

December 31, 2008

17. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

Corporate Governance

Corporate governance is generally accepted as the set of processes, customs, policies, laws and institutions that affect how a corporation is directed, administered or controlled. Corporate governance includes the relationships among the stakeholders involved, and the goals for which the corporation is governed. Effective corporate governance results in a well-run, high-performing and transparent organization, accountable to the public it serves. The shareholder, management and board of directors are instrumental to achieving effective corporate governance.

A. Authority

SaskWater is a statutory Crown corporation governed by The Saskatchewan Water Corporation Act, 2002, and is subject to the provisions of The Crown Corporation Act, 1993. Crown Investments Corporation of Saskatchewan (CIC), SaskWater's holding company, has the legislative authority to oversee and direct SaskWater.

On behalf of the Board of Directors, an independent director holds position of Chair, accountable to CIC and reporting to the Minister of Crown Corporations. The Minister is a key link between SaskWater, CIC Board, Cabinet, the Legislature and the public.

B. Board of Directors'

Responsibilities and Duties

The Board is responsible for SaskWater's stewardship, while fostering success consistent with SaskWater's mandate. The Board works with management to oversee corporate operations, including:

- setting corporate direction;
- guiding strategic planning processes;
- executing performance evaluations of the president and board members;
- annual and quarterly monitoring and reporting functions;
- assisting in business plan development and approval; and,
- monitoring processes and systems used to achieve sustainable operations.

The SaskWater Board of Directors met eight (8) times in 2008.

C. Board Composition

The SaskWater Board consists of ten (10) independent directors. All are appointed for a set term by the Lieutenant Governor in Council, who also designates the Chair and Vice Chair.

D. Committees

The Board has established three (3) standing committees to undertake detailed reviews and provide in-depth supervision in key areas of responsibility. The Committees of the Board are:

- Audit and Finance;
- Governance; and
- Corporate Social Responsibility and Sustainability.

Audit and Finance Committee – held six (6) meetings

Members: Ken Hookway (Chair), Glen Rittinger, Dennis Mainil

The Audit and Finance Committee helps the Board fulfill its financial accountability by:

- overseeing the corporation's budget, financial operations and results;
- reviewing internal controls established by management and the Board;
- participating in internal and external audit processes;
- monitoring the adequacy and condition of capital assets;
- reviewing and making recommendations on capital activities; and,
- ensuring appropriate systems are in place to identify and manage risk.

Governance Committee – held four (4) meetings

Members: Gary Vidal (Chair), Lionel LaBelle, Brenda Merasty, Garry Moroz

The Governance Committee reviews, develops and maintains SaskWater's governance practices and oversees the Board's nominating and governance activities, including:

- evaluating the performance of Board committees, Board Chair, individual directors and the President/CEO;
- recommending Board and Committee structure, composition and mandate;
- ensuring Board orientation and opportunities for professional development; and,
- articulating the roles and responsibilities of the Board.

Corporate Social Responsibility and Sustainability Committee – held three (3) meetings

Members: Dr. Dena McMartin (Chair), Larry Burechailo, Guy Lariviere.

The Corporate Social Responsibility and Sustainability Committee was established to assist SaskWater in becoming a leader in utilizing sustainability policy and best practices. This includes:

- helping to develop and implement a corporate sustainability policy;
- reviewing recommended policies, procedures and practices;
- reviewing and monitoring compliance with legislation and statutory environmental and sustainability laws and regulations; and
- identifying potential environmental risks.

Terms of Reference outlining the specific scope, duties and responsibilities of the SaskWater Board of Directors and Committees are available upon request by contacting SaskWater toll free: 1 888 230-1111 or by e-mail: customerservice@saskwater.com

E. Governance Practices

In substantial alignment with current industry best practices, SaskWater's approach to corporate governance is consistent with the Canadian Securities Administrators' (CSA) Corporate Governance Guidelines and Disclosure Practices. These guidelines address areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board's role, and ensuring proper function of the Board, while maintaining its fiduciary obligation to the Corporation.

SaskWater's corporate governance practices are benchmarked against CSA's Corporate Governance Guidelines. SaskWater's Corporate Governance Policies and Practices can be found at www.saskwater.com.

Board of Directors

Chair, Glen D. Rittinger FCA, CFP
Swift Current

- Partner with Stark & Marsh Chartered Accountants
- Part instructor at University of Regina and Athabasca College
- Member of numerous boards and committees including Liability Insurance Committee for Institute of Chartered Accountants of Saskatchewan and past Saskatchewan representative to the Intergovernmental Task Force on Multidisciplinary Activities
- Holds a B. Commerce from the University of Saskatchewan

Vice Chair, Lionel LaBelle
Saskatoon

- President and CEO of Saskatchewan Trade and Export Partnership
- Previously worked as Managing Partner, President and Chairman of the Board for public and private corporations focused on agri-business construction and the manufacturing industry
- In 2001 took on an advocacy role in the development of the biofuels industry both in Saskatchewan and Canada

Larry Burechailo
Assiniboia

- Councillor and Deputy Mayor of Great Bear Resort Village
- Works at SaskPower, also representing CEP provincially on the SaskPower Safety Network Committee, and operates a farm
- Previously worked in the automotive aftermarket industry, retailer and as working partner and served in the CNOR Army Reserves
- Sits as director with Mid Sask Enterprise Region

Ken Hookway
Melfort

- Agriculture Lending Specialist at Access Credit Union
- Worked in banking institutions in Western Canada since 1982 and in Saskatchewan since 1988
- Served on numerous boards and committees including the Melfort Chamber of Commerce and University of Saskatchewan Regional Advisory Committee

Guy Lariviere
Prince Albert

- Chief of Lac La Ronge Dene First Nation for past 16 years
- Previously worked in various senior level positions with Federation of Saskatchewan Indian Nations
- Actively participates in many provincial, local, band-wide and community economic initiatives
- Currently sits on numerous boards and committees including the Indian Gaming Regulators, Kitsaki Management Limited, Meadow Lake Tribal Council Health and Social Development Authority

Gary Vidal CGA
Meadow Lake

- Partner with the firm Virtus Group LLP
- Over 20 years of experience in the accounting profession
- Serves on various boards and committees within the community
- Former Saskatchewan Qualified Person for Junior A Hockey

Garry G. Moroz
Regina

- Operates a registered seed farm with farm registered as a commercial grain and pedigreed seed grower for Prairie Agro Seeds Limited
- Previously worked as credit manager and regional sales manager for a major farm equipment manufacturer and as owner of a farm equipment business
- Worked for a period of a year and a half in the Yukon, area and has been involved with the A.M.M.I.P. Project
- Graduate of Assiniboine Community College in Brandon – Agri-Culture, Sales and Management

Dennis Mainil
Hanley

- President of Mainil Inc.
- Involved in various businesses in Hanley, including construction and farming for the past 30 years
- In the past, served on the local school board and the regional park board, and is present chairman of the board of Hepburn Security and served on the local airport board
- Received a Diploma in Agriculture from the University of Saskatchewan

Dr. Dena McMartin, P. Eng.
Regina

- Associate Professor in Environmental Systems Engineering at the University of Regina
- Has worked at National Water Research Institute, Environment Canada, and as Guest Researcher at Swiss Federal Institute for Environmental Science and Technology
- Past chair of several University of Regina committees and currently sits on committees such as the Association of Professional Engineers and Geoscientists of Saskatchewan and the Canadian Water Resources Association
- Holds a B.Sc. in Agriculture and Bioresource Engineering and graduate degrees in Environmental Engineering from the University of Saskatchewan

Brenda Merasty
Saskatoon

- Senior Policy Analyst, First Nations and Métis Relations Accord, Office of the Premier, 2010
- Previously worked for Saskatchewan Indigenous Cultural Centre (SICC) and is active in various boards and councils
- Researched and implemented programs, strategies and conferences to promote, advance and celebrate First Nations and Métis culture, community and social issues including gaming and Métis Fine Art and Métis issues
- Received a Master of Business Administration from the University of Saskatchewan

PHOTO ABOVE:

Back row (left to right):
Ken Hookway, Garry Moroz, Lionel LaBelle and Gary Vidal.

Front row (left to right):
Dennis Mainil, Dr. Dena McMartin, Glen Rittinger and Larry Burechailo.

Missing:
Brenda Merasty and Guy Lariviere.

Corporate Directory

Stuart Kramer, President

Dean Bellegarde
Aboriginal Advisor to the President

Operations and Engineering

Mart Cram
Vice President, Operations and Engineering

Eric Light
Director, Engineering

Jeff Mander
Director, District Operations

Glen Gillis
Manager, Northern Engineering

Shahid Khan
Manager, Water & Wastewater Engineering

Rynette Moore-Guillaume
Manager, Special Services

Business Development and Corporate Services

Denise Soar
Vice President, Business Development and Corporate Services

Vacant, Director, Business Development

Marie Alexander
Manager, Human Resources

Danny Bo[illegible]ger
Manager, Financial Services

Ingrid Brueckner Newton
Manager, Policy & Planning

Kim Cave
Manager, Administration Services

Monty Gendall
General Counsel

Karen Steeves
Manager, Sales & Marketing

Gayle Zimmerman
Manager, Corporate Communications

Corporate Secretary to the Board of Directors

Terry Ross,
Crown Investments Corporation

Office Locations

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200-111 Fairford Street East
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Toll-free: 1-888-230-1111

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Watrous, SK S0K 4T0
(306) 946-3200

Prince Albert Office
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McIntosh Mall
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